

Reverse mortgages: A cushion against the rising cost of living

Did you know?

A reverse mortgage can be a flexible tool for a senior to offset the rising cost of living, to borrow more than a bank may be willing to lend for a traditional mortgage, and to provide emergency funds for long-term care.



Scenario

Judith is a 75-year-old and living on Steeles Avenue in North York, Toronto. She's lived in her home for over 40 years, and she and her late husband raised their family there. Given the location, she figures her older home is worth about \$2 million. There's also been speculation that there may someday be approval for condo development, which could cause the land value to skyrocket.

Judith receives the maximum CPP pension of about \$1,300 per month (a combination of her own retirement pension and a survivor pension for her late husband) and gets nearly the maximum OAS pension—another \$700 or so each month. That equates to about \$2,000 of monthly pension income from the federal government. She also has a small defined benefit pension from the UK government that fluctuates year to year based on the exchange rate.

Beyond that, she's been drawing down a savings account from a modest inheritance from her parents and a small life insurance policy paid out when her husband passed away a few years ago.

Judith's financial options to help cushion the impact of inflation:

1. Credit card
2. HELOC
3. Sell her home and move into an apartment or retirement home, and invest into GICs to cover her monthly costs.

Solution

Judith decides a reverse mortgage might be a good fit for her—but not yet. She can use the \$100,000 secured line of credit from the bank for now, but if she wants to stay in her home, eventually a reverse mortgage might be the best borrowing option. She's willing to pay interest, and besides, she's hopeful her home value will rise, tax-free, despite the interest she may pay.

More importantly, depleting the value of her estate seems unfounded. If she sells her home and rents, she'll be spending a portion of her children's inheritance either way. Her kids are supportive of her doing what she wants, which is to maintain the status quo.

Judith thinks a lot about what she would want to happen if her health deteriorated. She'd rather not count on help from her kids, preferring to pay for her costs herself.

A reverse mortgage could provide her with roughly \$900,000 that could be accessed all at once, advanced as scheduled monthly payments like a pension, or borrowed on an as-needed basis. She may not need to borrow much to supplement her spending in her 80s, but having access to a large part of her home equity appeals to her. Plus, if a developer does buy along her street to make way for condos, her home value may appreciate significantly.

Ready to get started?

If you'd like to learn more about how a reverse mortgage may similarly suit your needs, I'd be happy to help answer any questions you may have—with no obligations.

Name:



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Phone number:



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For more information, visit <https://www.equitablebank.ca/residential/reverse-mortgage>

All borrowers must meet Equitable Bank's lending criteria to be eligible for an Equitable Bank reverse mortgage.